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ABSTRACT

Designed to help educational policy makers understand student financial aid in California, this booklet covers the importance of aid, how it has changed, current programs, need analysis, packaging, public and student views, graduate aid, and politics and problems of aid. As student financial aid became a larger and more complex educational industry, the necessity arose to review the policies around it and identify any problems. Thus, the privately organized and funded Eureka Project was started to review the development of student financial aid in California. Student financial aid for postsecondary education involves about $1,500,000,000 as of 1987, with about 10% of all California families participating in some way. The importance of this aid in helping independent colleges survive and helping low income and minority students get an education is discussed. Financial aid to students has grown significantly over the past 30 years, and aid now includes grants, scholarships, loans, and part-time employment. The federal Guaranteed Student Loan (GSL) program is the largest current program with the Pell Grant program the next largest source of federal aid. State funds are generally in the form of grants, including Cal Grants. The determination of needs is explained along with the different types of aid packages. The manner in which students and the public view student financial aid. os addressed, and political issues and various problems are considered. (SM)

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THE EUREKA PROJECT

Briefly Speaking:

An Introduction to Student Financial Aid in California for Policy Makers

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THE EUREKA PROJECT

A Review of Student Financial Aid in California

Briefly Speaking:

An Introduction to Student Financial Aid in California for Policy Makers

November 1987

PREFACE

Student financial aid has become a major and complex educational industry. This year in California alone expenditures will be approximately $1,500,000,000 in all forms of financial assistance—grants, loans, and jobs. Anyone who has been associated with student financial aid is soon struck by how complicated the rules and structure are and how the students and colleges must deal with a multitude of agencies and organizations. Student financial aid is large, important and confusing.

Thirty years ago student financial aid nationally was less than $100,000,000. In California it was less than $10,000,000. The few government programs that existed were relatively simple in design. While funds were inadequate, the standards and procedures were comprehensible to all involved. Administration was, by today's standards, simple. Limited student financial aid, largely scholarships, was an activity funded by individuals, college endowments, and local groups. Even scholarships financed by PTA bake sales or similar activities were important to the total structure of financial aid.

Over the last three decades all financial aid has grown and its composition and sources of funding have markedly changed. In the last ten years loans have replaced grants and scholarships as the principal form of student aid. With a massive infusion of loan funds through commercial lenders, the nature of student financial aid has

changed. The locus of funding activities has moved from the PTA bake sale to huge federal appropriations, multimillion dollar stock and bond issues and an occasional international financial transaction to finance secondary loan markets.

As student financial aid has assumed a larger role in postsecondary education, it has become more important to review the policies that have undergirded it. One endeavor is to find out what the policies have been and if they have been explicitly enunciated or developed unofficially throughout the course of events. Policies, either as specifically adopted or developed in an evolutionary way, need to be reviewed for their past effect, current value, and future utility. Problem policies need to be identified and policies appropriate for the balance of this century developed.

It is these concerns that led to the creation of The Eureka Project. The Eureka Project is a privately organized, funded, and directed review of student aid policies in California. It is entirely funded by major grants from the James G. Irvine, Weingart, and Haynes Foundations, and by a supplemental grant from the Atlantic Richfield Foundation.

The Eureka Project is under the general direction of a board of directors, with more technical and specific advice to the project given by a steering committee composed of representatives of interested groups and institutions in California. A staff of consultants has come together to direct and write the various studies under The Eureka Project.

The Eureka Project aspires to review how California student financial aid developed, what it has done, what it has not done, and how it has served the interest of the general public, students, and institutions. The Eureka Project attempts to define issues and suggest policy guides for the future that may confirm where appropriate repair is needed and where redesign is desirable.

To this effort, The Eureka Project brings the experience of many individuals in postsecondary education and student financial aid. Their views are reinforced or tempered by available data.

With the broadest possible perspective, The Eureka Project studies the financing of higher education opportunities in California and the impact of current financial aid programs upon the formal structure of higher education and students. Within this perspective

lies the concern that the door of educational opportunity may be closing, that the health and vitality of quality independent institutions could be at risk, and that the current student financial aid system has a wide range of unintended consequences.

The Eureka Project anticipates issuing approximately a dozen reports in the fall of 1987. These reports will endeavor to stimulate policy review of student financial aid and financing of higher education in California and will be offered by the Board of Directors as thoughtful documents for that purpose. The reports will not necessarily represent the views of members of the Board of Directors or of the four California foundations whose grants have made The Eureka Project possible.

The first report of The Eureka Project is an historical essay entitled "Origins and Outcomes." It is not a conventional history and does not attempt to record all the events that have been instrumental to the growth of student aid. It does try to give an understanding of the major ideas and forces that have powered the development of the large educational enterprise that has affected the lives of students, institutions and the state.

This report of The Eureka Project is entitled "Briefly Speaking: An Introduction to Student Financial Aid for Policy Makers" and is written to help educational policy makers without specific experience with student financial aid understand the basic elements in this particularly complex educational enterprise.

Numerous individuals have either commented upon or provided material that has been incorporated in the text. They are: Don Hills, Martin Kramer, David Levy, James Sanderson and William Van Dusen. Jill Tronvig was the principal drafter of the report.

It is hoped that the studies from The Eureka Project will be useful references for individuals who will be deciding the future of student financial aid in California. Subjects in future studies and essays will be:

- Effectiveness of student financial aid in California with reference to both students and institutions.
- The premises that have undergirded the development of eligibility standards and practices for eligibility and need analysis.
- Financial aid for graduate and professional school students.
- Perceptions of and attitudes toward student aid in California.

- A discussion of the student loan programs and the issues attendant to the accumulation of student debt.
- Comparison of California with other industrial states.
- Identification and discussion of major policy issues.

A final report will synthesize the major findings of The Eureka Project studies and essays.

The Eureka Project plans to complete its work by December of 1987.

Arthur S. Marmaduke
Executive Director
The Eureka Project

BRIEFLY SPEAKING

Student financial aid for postsecondary education is an important issue involving large expenditures and a sizable number of Californians. About $1,500,000,000 will be spent for financial assistance this year. Ten percent of all California families are participating in student financial aid programs. Approximately 330,000 of the state's students receive some form of student aid, and close to half a million families are repaying student loans.

Over a third of all full-time California undergraduates receive financial aid. The proportion of aid recipients varies according to postsecondary segment. Fifty-nine percent of the undergraduates at independent colleges, 41 percent at the University of California, 35 percent at the California State University, and 21 percent at the community colleges receive some form of financial aid.

Importance of Student Financial Aid

Student financial aid is of great importance to both the public interest and to institutions of higher education. Aid programs extend the opportunity of higher education and, thus, entry to the professions to low income and minority students. As higher educa-

tion is extended to a greater percentage of the population our society benefits from the increased supply of well-educated individuals who add to the economic and social health of the state and nation.

Numbers of students enrolling in California higher educational institutions increased by 50 percent between the years 1970 and 1986. During this period, in which state and federal student aid programs were extending aid to increasing numbers of students, minority enrollment increased substantially. From 1976-77, the earliest year for which reliable data are available, to 1985-86 the number of blacks and Hispanics enrolled in California postsecondary education increased by almost 15 percent and total enrollment increased by 4 percent. It is doubtful that these increases would have taken place if student financial aid had not extended the opportunities for higher education to low income students.

TABLE 1
California Enrollment Figures

1970	1,158,000
1975	1,715,000
1980	1,835,000
1985	1,653,000
1986	1,743,000

A student's statement emphasizes the importance that financial aid plays in some students' decisions to attend college:

> "Being accepted to the University of California, Davis four years ago was one of the greatest things that ever happened to me. But when the realization of the costs of a college education hit me, I was afraid that I would not be able to attend. Now that my graduation is drawing near, I am proud to know that I have successfully completed my education. But I know that without help of financial aid, going to college would not have been possible."
>
> *Carmel Marie Reynoso*
> *University of California, Davis*[1]

Student aid is also vital to the survival and strength of the independent colleges. The president of the American Council on Education notes that more money is brought into institutions through financial aid than through fundraising efforts and calls financial aid the "very lifeblood of most institutions." Financial aid has a crucial effect on institutions' enrollments, marketing and financial planning.[2]

How Student Financial Aid Has Changed

The history of student financial aid reflects changes in the basis for awarding student assistance, the amount of money expended, the number of students served, the sources of funds, and the predominant form of aid. Prior to World War II most scholarships were based on merit and awarded to students with special academic, athletic, or creative talents. Today with the exception of some small programs designed to increase the numbers of people in undersupplied occupations, student financial aid is based on student financial "need," or the difference between students' educational expenses and their ability to pay.

There has been a significant growth in financial aid to students. The table below shows how dramatically financial aid expenditures have increased in the past thirty years.

TABLE 2
Total Student Aid Expenditures
(in millions of dollars)

	1956-57	1986-87
United States	$100	$20,096
California	$ 10	$ 1,547

Prior to the mid-1950's aid was supported by either institutional endowments and funds or gifts from individuals and civic groups. California and other major industrial states initiated student aid pro-

grams in the 50's, and state programs grew through the 1960's. The states had the predominant role in student aid until the mid-1970's, when that role shifted to the federal government.

Since the massive federal funding of student educational grants in 1974, the federal government has continued to be the largest source of money for student financial aid. Today, as the following table shows, the federal role remains strong despite inflation and efforts to reduce the federal deficit.

TABLE 3

Major Federal Grant and Loan Programs

(in millions of dollars)

1985-86

	California	United States
Pell	$277	$3,749
SEOG	$41	$396
Work/Study	$50	$693
Perkins Loans	$83	$841
Guaranteed Loans	$607	$8,882
Total	$1,058	$14,501

Until recently scholarships and grants were the principal form of financial assistance. In the last ten years, however, a growing proportion of federal student aid has been in the form of loans. Loans are now the largest source of student aid. The infusion of loans funded through commercial lenders has changed the nature of student financial aid, led to increasing default rates and debt burdens, and possibly affected students' educational major and career decisions.

The following table shows the changes that have occurred in distribution of student financial aid between the years of 1978-79 and 1985-86.

TABLE 4
Distribution of Grants, Loans, Work

	1978-79	1980-81	1985-86
Scholarships and Grants	69.4%	41.7%	46.0%
Work/Study	11.4%	7.3%	6.7%
Loans	19.2%	51.1%	47.3%
Total	100%	100%	100%

Current Student Financial Aid Programs

Today's student financial aid programs can be broadly classified as grants, loans, or part-time employment. Usually students in California can apply for financial aid with a single application form, the Student Aid Application for California or SAAC. Certain programs, however, have separate application criteria and procedures.

Federal Programs

The largest current program is the federal Guaranteed Student Loan program (GSL) that is administered by state agencies and private guarantors. Students apply to a bank or other lender for a GSL and fill out forms demonstrating financial need. Loans are approved by a guarantee agency, which in California usually is the Student Aid Commission. GSL's are interest-free for students until they leave school, and the federal government pays part of the interest owing the lender for the life of the loan. These interest subsidies, plus the cost of repayment on the loans of those borrowers who fail to keep up their repayments, involve major costs to the federal budget: $468 million in 1975, rising to $3 billion in 1985.

The next largest source of federal aid is the Pell Grant program, which before 1980 was called the Basic Educational Opportunity Grant Program. Students apply to the federal government for Pell Grants. Eligibility is determined by a formula which

considers a family's income, assets, size and number of family members in college. The result of this formula is an index number. The amount of the grant is determined by comparing the index number to a specified cost of education for any particular college. In 1986-87, Pell grants for full-time students ranged from $200 to $2,100.

Three other federal aid programs are administered by colleges and universities. Supplemental Educational Opportunity Grants, Perkins Student Loans, and College Work Study are funded by the federal government, and institutional aid officers have considerable discretion to arrange "packages" or combinations of awards based on students' needs.

California Programs

California state funds for student assistance are almost entirely in the form of grants. Students can apply for Cal Grant A, B and C with one application to the College Scholarship Service, but can actually receive only one grant.

The Cal Grant A program, the successor to the California State Scholarship program which was authorized in 1955, awards grants on the basis of financial need and academic performance. Since there are not sufficient funds to award grants to all students who demonstrate need, eligible students are prioritized according to grade point averages. As many students as possible are awarded grants which are based on tuition and fees, family income, and other awarded aid. There is a maximum award limit ($4,370 in 1987-88), and grants may only be used at colleges and universities in California.

The Cal Grant B program grants awards, which were formerly called College Opportunity Grants, to very low income students. First year awards are limited to nontuition expenses below $1,340, and in subsequent years grants may also cover all or part of tuition costs up to $4,120 in 1987-88. Over half of new awards are allocated to students who are planning to attend public community colleges.

The Cal Grant C program provides awards up to $2,890 for students enrolled in vocational programs. Awards are for tuition and other costs, and can be used by students at community col-

leges, independent colleges, or proprietary schools.

The State also funds institutional grant programs in the public segments of higher education. The Extended Opportunity Programs and Services at the community colleges provide grants for disadvantaged students. The California Community College Board of Governors Grants pay community college enrollment fees for students from low income families. The University of California and the California State University receive State general funds for grant programs.

In 1975-76 and 1985-86 state outlays for these programs were as follows:

TABLE 5

Outlays of State-Funded Student Aid Programs Generally Available to Undergraduates

($ in thousands)

	1975-76	1985-86
Cal Grant A (formerly State Scholarship)	$41,075	$75,271
Cal Grant B (formerly College Opportunity grants)	$ 8,852	$30,743
Cal Grant C	$ 1,137	$ 3,139
University of California Grants	$24,217	$65,391
California State University Grants	$ 5,369	$21,535
Community College Board Grants	–	$ 7,257
Extended Opportunity Programs (Community Colleges)	$ 4,466	$ 7,912
Total	$85,116	$211,248

How Need Analysis Works

Almost all financial aid provided by government and college funds is awarded to students who demonstrate financial need through a need analysis review. A "need analysis" determines the contribution that students and their families are expected to make to their college education. Information about dependent students' personal savings, and their parents' incomes, deductions, and net assets are reviewed. The expected family contribution will specify the amount that the individual students and their parents are expected to contribute. Students are generally expected to earn money through employment to help finance their own educations.

Independent students are not expected to receive a parental contribution. Only the income and assets of students and their spouses are considered in judging their ability to contribute.

The definition of an "independent student" is crucial, since a student from a middle-income family is much more likely to obtain aid if his or her parents' incomes and assets are not taken into consideration. In general, the federal programs usually require an independent student to be over age 24, a veteran, or have legal dependents other than a spouse. California programs have required independent students to show that they have been financially independent of their parents for three years. California requirements, however, are being changed to reflect new federal standards.

Measured Need

The amount of financial aid students need will depend on the institutions they attend as well as on their family contributions. As can be seen, there is great variation.

TABLE 6

Student Financial Needs

Students	Family Contribution	Public College:	Independent College:
Student 1— Dependent student from low income family (income: $15,000 per year; Net assets: $0)	Parent contribution from income: $0 Parent contribution from assets: $0 Student contribution: $700 Total family contribution: $700	Cost of attendance: $7,000 Measured need: $6,300	Cost of attendance: $15,000 Measured need: $14,300
Student 2— Dependent student from middle income family (income: $35,000 per year; Net assets: $50,000)	Parent contribution from income: $2920 Parent contribution from assets: $840 Student contribution: $700 Total family contribution: $4,460	Cost of attendance: $7,000 Measured need: $2,540	Cost of attendance: $15,000 Measured need: $10,540
Student 3— Independent student (income: $5,000 per year; Net assets: $0)	Parent contribution from income: $0 Parent contribution from assets: $0 Student contribution: $3,500	Cost of attendance: $7,000 Measured need: $3,500	Cost of attendance: $15,000 Measured need: $11,500

How Packaging Works

College financial aid offices look at a student's expected family contribution and propose aid "packages" or combinations of various means, to partially or wholly meet a student's college costs. Aid packages typically include grants, loans, and work study funds from a variety of sources.

Three typical aid packages illustrate how financial aid resources are combined to meet students' needs:

TABLE 7
Typical Financial Aid Packages

	Public College	Independent College
Student 1		
Measured Need	$6300	$14,300
Suggested Award	$1650 Pell $1800 Grant $ 417 State University Grant $1000 work $1433 loan	$1350 Pell $1500 work $2500 loan $8950 grant/scholarship
Student 2		
Measured Need	$2540	$10,540
Suggested Award	$650 Pell $ 417 State University Grant 1000 work $ 473 loan	$1250 work $2250 loan $7040 grant/scholarship
Student 3		
Measured Need	$3500	$11500
Suggested Award	$1050 Pell $ 417 State University Grant $1000 work $1033 loan	$1050 work $2450 loan $8000 grant/scholarship

How the Public Sees Student Financial Aid

Californians generally think that the State should increase student aid to make up for recent federal cutbacks. A 1986 California Poll, conducted by the Field Institute, found that Californians are more likely than other Americans to be concerned about the rising costs of higher education. A majority of Californians support additional aid for students from low and middle income families and students with good grades.

Most Californians think that using both loans and grants will stretch available money to more students.

The public is aware that there is a high default rate on student loans but tends to magnify the problem. Almost 90 percent of those polled thought that the default rate was substantially higher than it actually is.[3]

In spite of high default rates, Californians favor the use of loans as well as grants as forms of student aid.

Thus, the public supports current student aid policies in which the State provides grants and the federal government offers both loans and grants.

How Some Students See Student Financial Aid

The California college students who have either applied for or received financial aid and have been interviewed by the Eureka Project believe that society will benefit from their education. They think that the financial aid system does not adequately provide for the needs of middle class families or families with unusual circumstances. Although they see their educations as leading to jobs that will provide for their futures, they tend to worry constantly about how they will cover their current educational and living expenses.

It is possible to see how some students get into a position that might eventually lead to defaulting on student loans. They often have not been trained to handle their own finances, are not fully aware of financial aid regulations and procedures, have unrealistic ideas about their ability to support themselves immediately after gradua-

tion, and have signed loan agreements without consulting their parents or advisors. They assume loans when grants are not available, but many do not realize the extent of their indebtedness until the eve of their graduation.[4]

Financial Aid for Graduate and Professional Students

Financial aid for graduate and professional students differs from aid for undergraduates. Whereas aid for undergraduates is largely need-based, aid for graduate students is more likely to be based on merit.

The financial aid process for graduate and professional students is not nearly as standardized as the process for undergraduates. Students now apply to a central agency, the Graduate and Professional Student Financial Aid Service. Individual institutions, however, tend to have their own standards for determining who will be awarded aid.

Aid for graduate students is likely to come in the form of teaching or research assistantships. Undergraduate students would be unlikely to receive this type of aid.

Most graduate students are assumed to be independent students. Graduate and professional students who apply for aid are twice as likely as their undergraduate peers to be independent. Medical and law students, however, are likely to be dependent on their parents.[5]

The Politics of Student Financial Aid

The college community has had active lobbies for student financial aid in both the state and national capitals. Institutions, and associations representing schools with similar interests, student groups, financial aid officers, and minority groups have sought to participate in legislative decision making.

Congressmen and state legislators have generally responded to

their constituents' concerns for financial aid, and they have fought various administrations that have suggested reductions in student aid.

The result has been a political consensus in which financial aid is extended to students from low and middle income families. This consensus is a middle ground that satisfies public and private institutions, Democrats and Republicans.

Problems of Student Financial Aid

Although Cal Grants and federal student aid have remained largely static until recently, they have declined dramatically when compared with inflation and the cost of education.

Major student financial aid issues before the State include:

- Improving equality of opportunity for low income students.
- Improving opportunity for students to attend independent colleges through student financial aid.
- Fostering excellence and assuring supply of well-educated productive individuals.
- Reviewing status of financial aid for graduate and professional school students.
- Determining ability of parents and students to pay for a share of costs and a proper balance of grants, loans and work.
- Understanding and evaluating the consequences of the shift to loans as the principal source of student financial aid (with particular emphasis on student debt burden.)
- Improving understanding of the relationship of student financial aid to institutional finance and tuition levels.
- Adjusting to inflation-caused reductions in federal and state grant funds.
- Minimizing administrative complexity and improving the delivery system.
- Establishing a more effective system of financing higher education that allows students, families, and institutions to plan with more certainty.

In Summary

California student financial aid for postsecondary education involves large expenditures of state tax dollars. It is equally important to students, institutions and our society. Student aid programs have made it possible, and continue to make it possible, for large numbers of low-income and minority students to seek higher education. Student financial aid is also crucial to the health of the state's colleges and universities and to our society which reaps the benefits of a well-educated populace.

Student financial aid is complex. There are multiple federal and state programs, and it is often difficult for students and parents to understand the varied application procedures and regulations.

The federal student aid program has changed its emphasis from grants to loans. These loans are administered by the state and have led to rising default rates among former students who have been unable to meet their repayment obligations.

Californians have expressed concern about default rates, and they are also concerned about the high costs of college attendance. The public supports financial aid programs designed to provide for low and middle income students.

Student financial aid has evolved gradually, and several major issues are unresolved. There is a need for all concerned factions to work together to develop creative solutions to current problems in the system.

BACK MATTER

GLOSSARY OF TERMS

CAL GRANT–The Cal Grants (A, B, and C) are State grants administered by the Student Aid Commission.

CALIFORNIA COMMUNITY COLLEGE BOARD OF GOVERNORS GRANTS–A state grant to pay community college enrollment fees for students from low income families.

COLLEGE SCHOLARSHIP SERVICE–An activity of the College Board that processes applications for California students.

CSU–California State University.

EOP/EOPS–Educational Opportunity Programs, Extended Opportunity Programs and Services.

FINANCIAL NEED–The difference between what a student and his family can contribute and what it will cost for a student to go to the school of his or her choice.

GRANT–Financial aid that is given outright and does not have to be repaid.

GUARANTEED STUDENT LOAN (GSL)—Federally guaranteed loans which must be repaid after college attendance.

INDEPENDENT COLLEGES—Colleges and universities that are not governed by a governmental organization.

INDEPENDENT STUDENT—A student considered to be free of parental support.

PACKAGE—The financial aid offer in which an institution includes a combination of grant, loan, and/or work aid.

PELL GRANT—A federal grant that is available to any undergraduate student with financial need as determined by the federal government.

PERKINS LOANS—A federally sponsored student loan which carries five percent interest and is awarded through a school. Formerly known as the National Direct Student Loan Program.

PROPRIETARY SCHOOLS—Privately owned schools usually providing vocational education.

SCHOLARSHIP—A grant awarded on the basis of grades or other achievement.

STUDENT AID APPLICATION FOR CALIFORNIA (SAAC)—A common application form used for most financial aid.

STUDENT AID COMMISSION—The California state agency which administers several student aid programs and develops the SAAC.

SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT (SEOG)—A federal grant program intended to aid students by supplementing other forms of financial aid.

UC—University of California.

WORK-STUDY—Part-time job for students to earn money for educational expenses.

NOTES

1. National Association of Student Financial Aid Administrators, *Student Financial Aid . . . Making a Lifetime of Difference* (Washington, D.C., 1985), p. 12.

2. Robert H. Atwell, What Academi- Administrators Should Know About Financial Aid, *New Directions for Higher Education: Academic Leaders as Managers*, no. 36 (San Francisco: Jossey-Bass, 1981), p. 69.

3. Eureka Project Studies.

4. Eureka Project Studies.

5. Arthur Hauptman, *Students in Graduate and Professional Education: What We Know and Need to Know* (Washington, D.C.: The American Association of Universities), pp. 55-57.

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